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**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION**

PAYLOCITY CORPORATION,

Plaintiff,

vs.

CANGRADE, INC. and SYNOPSYS, INC.,

Defendants.

CASE NO.: 5:23-cv-6349

PLAINTIFF'S COMPLAINT FOR:

(1) DECLARATORY JUDGMENT; AND

(2) PROFESSIONAL NEGLIGENCE

JURY TRIAL DEMANDED

Plaintiff, Paylocity Corporation (“Paylocity”), by and through its undersigned attorneys, hereby submits this Complaint against Defendants, Cangrade, Inc. (“Cangrade”) and Synopsys, Inc. (“Synopsys”) (collectively, “Defendants”), and in support thereof, alleges the following:

I. NATURE OF ACTION

II. PARTIES

1. Plaintiff, Paylocity, is a Delaware corporation with its principal place of business located at 1400 American Lane, Schaumburg, Illinois 60173. Paylocity provides a cloud-based payroll and human capital management software suite that allows businesses to automate tasks and streamline payroll processes.

2. Defendant, Cangrade, is a Delaware corporation with its principal place of business at 9 Munroe Avenue, Watertown, Massachusetts 02472. Cangrade provides employment assessment software that assists employers with talent management and acquisition, onboarding, skill testing, and professional development.

3. Defendant, Synopsys, is a Delaware corporation with its principal place of business at 675 Almanor Avenue, Sunnyvale, California 94085. Synopsys is an electronic design automation company that focuses on silicon design, verification, intellectual property integration, software security, and quality testing.

III. JURISDICTION, VENUE, AND DIVISIONAL ASSIGNMENT

4. This Court has diversity jurisdiction over this action pursuant to 28 U.S.C. § 1332 in that Paylocity is a Delaware corporation with its principal place of business in Illinois, Cangrade is a Delaware corporation with its principal place of business in Massachusetts, and Synopsys is a Delaware corporation with its principal place of business in California, and the amount in controversy between the parties exceeds \$75,000, exclusive of interest and costs.

5. This Court also has federal question jurisdiction over this action pursuant to 28 U.S.C. §§ 1331, 1338, and 2201-2202 because there exists a case or controversy under the Declaratory Judgment Act, 28 U.S.C. §§ 2201 *et seq.*, and Plaintiff’s claims are predicated upon the Defend Trade Secrets Act, 18 U.S.C. §§ 1831, 1839 *et seq* (“DTSA”). This Court also has supplemental jurisdiction over Plaintiff’s state law claim predicated upon the Synopsys’ obligation to defend and indemnify,

upon the Massachusetts Trade Secrets Act, Mass. Gen. Laws ch. 93 §§ 42 *et seq.* (“MTSA”), and for professional negligence, pursuant to 28 U.S.C. § 1367.

6. This Court has personal jurisdiction over Defendants because the Parties voluntarily consented to exclusive jurisdiction in the Northern District of California through forum selection clauses in contracts that are the subject of this action.

7. Further, this Court has general personal jurisdiction over Synopsys, which has its principal place of business in the State of California and regularly conducts business in the State of California and in this District.

8. This Court also has specific personal jurisdiction over Cangrade, which has systemic and substantial contacts within the State of California because it transacts business in and/or affecting the State of California and regularly communicates with Synopsys in the State of California, and the harm identified herein occurred in the State of California.

9. Venue is proper in the Northern District of California pursuant to 28 U.S.C. § 1391 because a substantial part of the events giving rise to this action occurred in this District. Further, the Parties voluntarily consented to exclusive venue in the Northern District of California through forum selection clauses in two contracts at issue that are the subject of, and at the heart of, this action and that are described below.

10. Assignment of this action to this Court’s San Jose Division pursuant to Civil Local Rule 3-2(e) is proper because a substantial part of the events giving rise to this action occurred in Sunnyvale, which is in Santa Clara County, a county that is assigned to this Division.

IV. GENERAL ALLEGATIONS

A. Paylocity and Cangrade Contemplate Potential Transaction.

11. In the summer of 2023, Paylocity and Cangrade engaged in discussions regarding a potential transaction between them.

12. [REDACTED]

[REDACTED]

[REDACTED]

1 13. [REDACTED]

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 14. On September 6, 2023, Paylocity and Cangrade entered into a confidential Letter of

12 Intent (“LOI”) for the contemplated, potential transaction.

13 15. The LOI contains a confidentiality provision, which prevented Paylocity and Cangrade

14 from disclosing the existence of the LOI. Cangrade, unfortunately, has committed a breach of this

15 confidentiality provision and has publicly disclosed the existence of that provision. Only because

16 the existence of the LOI is already in the public domain thanks to Cangrade’s breach, does Paylocity

17 publicly reference the LOI in this pleading.

18 16. [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 LOI § 13.

23 **B. Synopsys Was Engaged to Perform Audit Services for Paylocity and Cangrade.**

24 17. [REDACTED]

25 [REDACTED]

26 18. Paylocity engaged in activity to determine whether Paylocity would complete the

27 potential transaction contemplated by the LOI.

28

1 19. As part of Paylocity's activity, Paylocity sought a software audit of Cangrade's
2 source code.

3 20. [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]

10 21. [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]

17 22. Having worked with Synopsys since at least 2019 without incident and, further, based
18 upon Synopsys' reputation, Paylocity understood Synopsys to be highly qualified in the field and with
19 handling confidential source code (also sometimes referred to as "software" or "code") and to be
20 trustworthy to perform such an audit. As a result, Paylocity proposed Synopsys to perform an audit
21 of Cangrade's code. Cangrade consented to Synopsys performing an audit.

22 23. Throughout the process, Paylocity took steps to ensure confidential information
23 was safeguarded and to prevent the improper disclosure of such information, [REDACTED]

24 [REDACTED]

25 24. In addition, for the purposes of the subject audit work, Synopsys and Cangrade agreed
26 to enter into a confidentiality agreement for Synopsys' handling of Cangrade's code.

27
28

25. As a result, Synopsys entered into a Code Owner Non-Disclosure Agreement (“CONDA”) directly with Cangrade on September 11, 2023 for the handling and software audit of Cangrade’s Code.

26. The CONDA places a direct obligation on Synopsys not to disclose Cangrade’s source code and to employ a reasonable degree of care in handling the same. CONDA § 2. Specifically, the CONDA provides:

Synopsys will use the Subject Code solely for the purpose of providing the Services and will protect the Subject Code from unauthorized disclosure with no less than a reasonable degree of care. Synopsys will limit its access to the Subject Code to those employees or consultants who have a need to have access to the Subject Code to perform the Services and who are bound by confidentiality obligations at least as restrictive as the confidentiality obligations contained herein.

Id. § 2.

27. Paylocity also relied upon the confidentiality obligations that the CONDA placed on Synopsys as a reasonable measure to protect the handling of Cangrade’s code.

the CONDA also contained a forum selection clause for disputes: This Agreement will be governed by and construed in accordance with the laws of the State of California. Sole and exclusive jurisdiction and venue over any action, suit or proceeding arising out of or relating to this Agreement in any manner shall lie in the federal or state courts located in the Northern District of California and the parties irrevocably consent to the personal jurisdiction and venue therein.

Id. § 6.

28. [REDACTED]

29. [REDACTED]

30. To engage Synopsys, [REDACTED]

31. Cangrade sent its source code directly to Synopsys, pursuant to [REDACTED] the CONDA, for Synopsys to perform the software audit in connection with Paylocity's potential transaction with Cangrade.

32. Cangrade did not send its source code to Paylocity, nor did Paylocity have other access to the source code.

33. Cangrade has alleged in its Massachusetts Complaint (as defined below) that, on October 4, 2023, Synopsys disclosed Cangrade's source code on GitHub, a public, cloud-based platform for software development.

34. In correspondence from counsel for Synopsys to counsel for Paylocity, Synopsys' counsel admitted that one of its personnel was responsible for the alleged exposure of Cangrade's code, stating in part:

We outlined various actions Synopsys immediately undertook upon having been informed about the data exposure to mitigate its potential impact and to reach an expeditious resolution of the incident. For example, we informed you that Synopsys quickly launched an internal investigation upon news of the exposure, and that Synopsys had identified the individual believed responsible for the data's appearance on GitHub. We conveyed to you that Synopsys' legal department interviewed this individual, along with other employees, including the individual's manager. We further relayed that Synopsys had engaged a trusted outside forensic analysis firm to perform its own independent forensics on the individual's company-issued equipment.

As a result of Synopsys' internal investigation, which remains ongoing, Synopsys informed you of its preliminary conclusions up to that point; namely, that the individual appeared to have acted alone, that the data was removed from GitHub within a couple hours of being uploaded, and that Synopsys was taking all remedial measures permitted with respect to the individual identified as the source of the exposure.

Discipline and Training/Controls: We assure you that Synopsys is responding with appropriate disciplinary action against the individual responsible. Concurrently with its investigation, Synopsys is following disciplinary policies and processes to the fullest extent for the misconduct.

November 17, 2023 Letter from Barrington Dyer to Peter M. Ellis.

1 35. Synopsys' alleged disclosure of Cangrade's source code on GitHub would have
2 violated the terms of Synopsys' CONDA with Cangrade [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 **C. Paylocity Declined to Continue Transaction Discussions with Cangrade.**

6 36. By October 9, 2023, Synopsys had completed its final portion of the audit report.

7 37. On or around November 3, 2023, Paylocity informed Cangrade that it no longer
8 intended to continue negotiations regarding the potential transaction.

9 38. Paylocity's decision to not continue with the transaction was not due to Synopsys'
10 alleged disclosure of Cangrade's code on GitHub [REDACTED]

11 [REDACTED]

12 **D. Cangrade Files Suit Against Paylocity.**

13 39. On November 17, 2023, Cangrade filed a six-count complaint ("Massachusetts
14 Complaint" or "Mass. Complaint") in a lawsuit against Paylocity in the United States District of
15 Massachusetts, captioned *Cangrade, Inc. v. Paylocity Corp.*, C.A. No. 1:23-cv-12804 (the
16 "Massachusetts Action"). The Massachusetts Complaint is ECF No. 1 in the Massachusetts
17 Action and is attached as Exhibit 1 hereto.

18 40. In the Massachusetts Action, Cangrade asserts six counts.

19 41. In Count I of the Massachusetts Action, Cangrade alleges that Paylocity should be
20 required to specifically perform its alleged obligations under the LOI.

21 42. In Count II of the Massachusetts Action, Cangrade alleges that Paylocity breached its
22 obligations [REDACTED] by virtue of Synopsys' alleged disclosure of Cangrade's source code on
23 GitHub.

24 43. In Count III of the Massachusetts Action, Cangrade alleges that Paylocity breached the
25 LOI and its implied covenant of good faith and fair dealing.

26 44. In Count IV of the Massachusetts Action, Cangrade alleges that Paylocity was
27 negligent or grossly negligent in its efforts to protect the alleged confidentiality of Cangrade's code.

28

1 45. In Counts V and VI of the Massachusetts Action, Cangrade alleges that Paylocity
2 violated the federal Defend Trade Secrets Act (“DTSA”) and the Massachusetts Trade Secrets Act
3 (“MTSA”) because Paylocity allegedly misappropriated Cangrade’s code by and through the actions
4 of Synopsys, for which Cangrade alleges Paylocity is liable.

5 46. Each of Counts II, IV, V, and VI in the Massachusetts Action (“the Disclosure Counts”)
6 is based ultimately upon an alleged breach of the CONDA [REDACTED] by Synopsys by its alleged
7 public disclosure of Cangrade code, not by the direct acts of Paylocity.

8 47. Each of Counts I and III in the Massachusetts Action (“the Transaction Counts”)
9 concerned the failed transaction and had nothing to do with the Disclosure Counts.

10 48. Nevertheless, Cangrade entangled the Transaction Counts with the Disclosure Counts
11 in an attempt to use the Disclosure Counts to leverage Paylocity into completing the failed transaction.

12 49. Although Cangrade filed its lawsuit in Massachusetts, [REDACTED] the CONDA
13 contain forum selection clauses, in which the parties to those agreements agree that the exclusive
14 jurisdiction over any claim arising out of the CSA or the CONDA “shall lie in the federal or state
15 courts located in the Northern District of California” and that “the parties irrevocably consent to the
16 personal jurisdiction and venue therein.” [REDACTED]; CONDA § 6.

17 50. As a result, in addition to being without merit, the Disclosure Counts were improperly
18 brought in the District of Massachusetts, rather than the Northern District of California.

19 51. [REDACTED]
20 [REDACTED] as a result of Synopsys’ violation of the terms of the CSA, on November 20, 2023, Paylocity
21 demanded that Synopsys provide indemnification and defense to Paylocity for the Disclosure Counts,
22 [REDACTED] In response, however, on November
23 22, 2023, Synopsys refused to provide indemnification and defense to Paylocity.

24 52. Additionally, based on past work together, Paylocity knew Synopsys to possess
25 specialized knowledge of software code and auditing services and experience with handling
26 confidential source code. Paylocity faces potential liability to Cangrade in the Massachusetts Action
27 due to Synopsys’ failure to exercise the reasonable diligence and care exercised by others in its
28 profession when it disclosed Cangrade’s software code on GitHub.

V. FIRST CAUSE OF ACTION

(Declaratory Judgment of Synopsys' Obligation to Defend and Indemnify)

53. The allegations of the foregoing paragraphs are incorporated herein.

54. The Disclosure Counts in the Massachusetts Action are based upon Synopsys' alleged breach of the CONDA.

55. Count II of the Massachusetts Complaint alleges that "Paylocity breached the MNDA through the unauthorized disclosure of Cangrade's proprietary software on the GitHub repository by Paylocity's Representative, Synopsys, which also is a violation of the CONDA." Mass Compl. ¶ 54. Thus, Count I not only alleges a breach of the CONDA, but the [REDACTED]

[REDACTED] However, Cangrade seeks to hold Paylocity, rather than Synopsys, liable for breach of contract allegedly due to Synopsys' alleged public disclosure of Cangrade's software and alleged breach of the CONDA. *Id.* ¶¶ 53-57.

56. Count IV of the Massachusetts Complaint alleges negligence and gross negligence by Paylocity for allegedly failing to exercise the proper duty of care in not protecting Cangrade's software, which allegedly ultimately resulted in a public disclosure of Cangrade's software by Synopsys. *Id.* ¶¶ 69-76. Among other things, Cangrade alleged that "[o]n information and belief, the person or persons responsible for the physical actual disclosure of Cangrade's proprietary software acted maliciously and with intent to harm Cangrade, and were not reasonably vetted as employees to be entrusted with the responsibilities to protect Cangrade's proprietary software." *Id.* ¶ 74. The employees at issue were those of Synopsys, not Paylocity. However, Synopsys seeks to hold Paylocity for the alleged acts of Synopsys and its employees in Count II. *Id.* at ¶¶ 69-76.

57. Counts V and VI of the Massachusetts Complaint allege violations of the federal Defend Trade Secrets Act ("DTSA") and Massachusetts Trade Secrets Act ("MTSA"), respectively. *Id.* at ¶¶ 77-97. In each of these two counts, Cangrade alleged that "Synopsys, as Representative/agent for Paylocity, used and disclosed the Cangrade Trade Secrets by improper means in violation of their contractual and other obligations to Cangrade." *Id.* at ¶¶ 82 (Count V), 92 (Count VI). Cangrade seeks to hold Paylocity liable for these alleged acts by alleging both that "Paylocity is responsible for trade

1 secret violations of its Representative/agent of its Representative/agent under the doctrine of
2 respondeat superior (vicarious liability) as the actions of Synopsys regarding the audit of Cangrade's
3 source code was conducted at the behest of Paylocity, acting within the scope of its status as
4 Representative/agent, and for Paylocity's benefit." *Id.* ¶¶ 85 (Count V), 95 (Count VI). Thus,
5 Synopsys seeks to hold Paylocity liable for these alleged acts of Synopsys.

6 58. As a result of the allegations in Counts II, IV, V, and VI in the Massachusetts
7 Complaint, and without admitting any such allegations, Paylocity faces exposure for potential liability
8 to Cangrade – [REDACTED]

9 [REDACTED]
10 59. [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]

14 60. Among other things, [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]

21 61. [REDACTED]
22 [REDACTED]

23 62. [REDACTED]
24 [REDACTED] While Paylocity has not seen the software, and
25 without admitting any allegations made by Cangrade, to the extent that Cangrade has contended in the
26 Massachusetts Complaint that the subject software contained information confidential to Cangrade,
27 such software would constitute Confidential Information under the CSA.
28

1 63. Thus, if and to the extent that (a) Cangrade's software constitutes information
2 confidential to Cangrade and (b) Synopsys did not maintain the confidentiality of that, [REDACTED]

3 [REDACTED]
4 64. [REDACTED]
5 [REDACTED]

6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]

13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]

17 65. [REDACTED]
18 [REDACTED]

19 66. [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]

23 67. The exposure that Paylocity faces as a result of Counts II, IV, V, and VI in the
24 Massachusetts Action satisfies one or more conditions for indemnification [REDACTED]

25 [REDACTED]
26 68. Synopsys, therefore, owes Paylocity duties of indemnification and defense for the
27 matters raised in the Disclosure Counts in the Massachusetts Action, wherever they may be litigated.
28

As asserted elsewhere in the instant Complaint, such matters should be the subject of the instant action and should be litigated in this Court.

69. On November 20, 2023, [REDACTED], Paylocity in-house counsel sent a letter by courier to the Synopsys legal department, demanding indemnification and defense for Paylocity's exposure for Counts II, IV, V, and VI in the Massachusetts Complaint and stating Paylocity's provision of control of the defense of these counts in the Massachusetts case and Paylocity's commitment to provide all reasonable assistance as requested by Synopsys. Outside counsel for Paylocity also e-mailed a courtesy copy of that same letter to outside counsel for Synopsys that same day.

70. On November 22, 2023, outside counsel for Synopsys sent a responsive letter declining Paylocity's demand for indemnification and defense.

71. Accordingly, an actual, justiciable controversy exists between Paylocity and Synopsys concerning whether Synopsys owes a duties of indemnification and defense for the matters raised in the Disclosure Counts, wherever they may be litigated.

72. Paylocity seeks and is entitled to a declaratory judgment by this Court that Synopsys owes duties of indemnification and defense to Paylocity for the matters raised in Disclosure Counts, wherever they may be litigated and that Paylocity is entitled to its reimbursement of its attorneys' fees and costs in pursuing indemnification and defense from Synopsys.

VI. SECOND CAUSE OF ACTION

(Claim for Professional Negligence Against Synopsys)

73. The allegations of the foregoing paragraphs are incorporated herein.

74. Paylocity retained Synopsys to perform the audit of Cangrade's software code due to Synopsys' reputation in the field as being qualified to perform such an audit and experience with handling confidential source code of others under Paylocity's prior engagements with Synopsys.

75. As a result, [REDACTED]

76. [REDACTED]

1 77. Among other things, [REDACTED]

2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 78. Indeed, Synopsys purported to possess specialized knowledge and technical expertise
7 regarding software audits.

8 79. Moreover, [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]

15 80. [REDACTED]
16 [REDACTED]

17 81. Thus, [REDACTED]
18 [REDACTED]

19 82. [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]

23 83. By purportedly disclosing Cangrade's software publicly on GitHub, Synopsys
24 breached the foregoing duty that it owed to Paylocity.

25 84. As a direct result of the purported disclosure by Synopsys, Paylocity was injured in the
26 form of expense, including but not limited to legal fees, as well as diversion from other business
27 activities, in dealing with both Synopsys and Cangrade in response to the purported disclosure. This
28 injury is actual and is ongoing. As one example, Paylocity has been forced to incur the expense,

business diversion, and potential exposure resulting from the Disclosure Counts in the Massachusetts Action, which is ongoing, as well as certain counts raised in this case. As another example, Paylocity has been forced to incur the expense of the present lawsuit in order to seek redress from Synopsys.

VII. THIRD CAUSE OF ACTION

(Declaratory Judgment of Non-Violation of the DTSA by Paylocity Against Cangrade and Synopsys)

85. The allegations of the foregoing paragraphs are incorporated herein.

86. Cangrade disclosed its source code to Synopsys, not Paylocity, for purposes of the source code audit of Cangrade.

87. In the Massachusetts Action, Cangrade has asserted a claim for the alleged violation of the Defend Trade Secrets Act (“DTSA”) resulting from Synopsys’ alleged public disclosure of Cangrade’s source code on GitHub. Mass. Compl. ¶¶ 77-87.

88. A public disclosure by Synopsys of Cangrade’s source code on GitHub would constitute a violation of the Synopsys’ confidentiality obligations to Cangrade under the CONDA.

89. [REDACTED]

90. [REDACTED]

91. [REDACTED]

92. [REDACTED]

93. In the Massachusetts Action, Cangrade has alleged that Synopsys, not Paylocity, was the party that directly improperly disclosed Cangrade’s code in violation of the DTSA.

94. However, Cangrade deliberately omitted Synopsys as a party to the Massachusetts Action.

95. Instead, Cangrade alleged in the Massachusetts Action that Paylocity is liable for any acts of disclosure by Synopsys on the basis that Synopsys allegedly served as Paylocity’s agent and/or under the doctrines of respondeat superior and vicarious liability.

1 96. [REDACTED]

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 97. Paylocity is not liable for the acts of Synopsys or Synopsys' personnel as alleged
6 agents, employees, and/or under the doctrines of respondeat superior, vicarious liability, or otherwise,
7 [REDACTED] or otherwise under the law, and Paylocity seeks a declaratory judgment
8 that it is not so liable.

9 98. Without admitting that a violation of the DTSA occurred, to the extent that a disclosure
10 by defendant, Synopsys, of Cangrade's code occurred, Synopsys, rather than Paylocity, would bear
11 liability, if any, for any such acts of disclosure.

12 99. As a result of the allegations in the Massachusetts Complaint, a substantial, actual case
13 or controversy exists among Paylocity, Cangrade, and Synopsys as to whether a violation of the DTSA
14 occurred based upon Synopsys' alleged disclosure of Cangrade's code and, if so, whether Synopsys
15 or and/or Paylocity committed such violation.

16 100. Accordingly, Paylocity seeks a declaration that Paylocity did not commit a violation of
17 the DTSA as a result of an alleged disclosure of Cangrade source code by Synopsys. Paylocity further
18 seeks a declaration that, if (and without admitting that) a violation of the DTSA occurred as a result
19 of the alleged disclosure of Cangrade's source code by Synopsys, it is Synopsys and not Paylocity
20 who would bear liability.

21 101. [REDACTED]

22 [REDACTED]

23 [REDACTED]

24 [REDACTED]

25 102. [REDACTED]

26 [REDACTED]

27 [REDACTED]

28 [REDACTED]

1 [REDACTED]
2 [REDACTED]
3 [REDACTED], the Northern District of California is
4 the proper forum for the litigation of this dispute, and Massachusetts is an improper forum for the
5 litigation of this dispute.

6 103. Moreover, Cangrade and Synopsys agreed in the CONDA that “[s]ole and exclusive
7 jurisdiction and venue over any action, suit or proceeding arising out of or relating to this Agreement
8 [the CONDA] in any manner shall lie in the federal or state courts located in the Northern District of
9 California and the parties irrevocably consent to the personal jurisdiction and venue therein.” CONDA
10 § 6. As a result, because this dispute also properly involves Synopsys, who Cangrade omitted in the
11 Massachusetts Action, and because it arises out of a dispute as to whether Synopsys violated its
12 confidentiality obligations under the CONDA, the proper venue for this dispute lies with this Court.

13 104. Accordingly, Paylocity seeks a declaration from this Court that it did not commit a
14 violation of the DTSA vis-à-vis Cangrade.

15 105. Paylocity further seeks a declaration that, if a violation of the DTSA occurred, it is
16 Synopsys, and not Paylocity, that bears liability for any such violation.

17 106. Paylocity further seeks a declaration that Cangrade’s source code at issue does not
18 constitute trade secrets.

19 107. Paylocity further seeks a declaration that Cangrade has not been damaged by any
20 alleged disclosure of Cangrade’s source code.

21 **VIII. FOURTH CAUSE OF ACTION**

22 **(Declaratory Judgment of Non-Violation of the MTSA by Paylocity Against** 23 **Cangrade and Synopsys)**

24 108. The allegations of the foregoing paragraphs are incorporated herein.

25 109. Cangrade disclosed its source code to Synopsys, not Paylocity, for the purposes of the
26 source code audit of Cangrade.

110. In the Massachusetts Action, Cangrade has asserted a claim for the alleged violation of the Massachusetts Trade Secrets Act (“MTSA”) resulting from Synopsys’ alleged public disclosure of Cangrade’s source code on GitHub. Mass. Compl. ¶¶ 88-97.

111. A public disclosure by Synopsys of Cangrade’s source code on GitHub would constitute a violation of Synopsys’ confidentiality obligations to Cangrade under the CONDA.

112. Further, Paylocity retained Synopsys to perform the software audit [REDACTED]

113. As described above, [REDACTED]

114. In the Massachusetts Action, Cangrade has alleged that Synopsys, not Paylocity, was the party that directly and improperly disclosed Cangrade’s code in violation of the MTSA.

115. However, Cangrade deliberately omitted naming Synopsys as a party in the Massachusetts Action.

116. Instead, Cangrade alleged in the Massachusetts Action that Paylocity is liable for any acts of disclosure by Synopsys on the basis that Synopsys allegedly served as Paylocity’s agent and/or under the doctrines of respondeat superior and vicarious liability.

117. As described above, [REDACTED]

118. Paylocity is not liable for the acts of Synopsys or Synopsys’ personnel as alleged as agents, employees, and/or under the doctrines of respondeat superior, vicarious liability, or otherwise, [REDACTED] or otherwise under the law, and Paylocity seeks a declaratory judgment that it is not so liable.

119. Without admitting that a violation of the MTSA occurred, to the extent that a disclosure by defendant, Synopsys, of Cangrade’s code occurred, Synopsys, rather than Paylocity, would bear liability, if any, for any such acts of disclosure.

120. As a result of the allegations in the Massachusetts Complaint, a substantial, actual case or controversy exists among Paylocity, Cangrade, and Synopsys as to whether a violation of the MTSA occurred based upon Synopsys' alleged disclosure of Cangrade's code and, if so, whether Synopsys or and/or Paylocity committed such violation.

121. Accordingly, Paylocity seeks a declaration that Paylocity did not commit a violation of the MTSA as a result of an alleged disclosure of Cangrade source code by Synopsys. Paylocity further seeks a declaration that, if (and without admitting that) a violation of the MTSA occurred as a result of the alleged disclosure of Cangrade's source code by Synopsys, it is Synopsys and not Paylocity who would bear liability.

122. Disclosure of Cangrade's confidential information by Synopsys would constitute a violation of [REDACTED]

123. As described above, [REDACTED], the Northern District of California is the proper forum for the litigation of this dispute, and Massachusetts is an improper forum for the litigation of this dispute.

124. Moreover, Cangrade and Synopsys similarly agreed in the CONDA that exclusive jurisdiction would lie in the Northern District of California. CONDA § 6. As a result, because this dispute also properly involves Synopsys, who Cangrade failed to name as a party in the Massachusetts Action, and because it arises out of a dispute as to whether Synopsys violated its confidentiality obligations under the CONDA, the proper venue for this dispute lies with this Court.

125. Accordingly, Paylocity seeks a declaration from this Court that it did not commit a violation of the MTSA vis-à-vis Cangrade.

126. Paylocity further seeks a declaration that, if a violation of the MTSA occurred, it is Synopsys, and not Paylocity, that bears liability for any such violation.

127. Paylocity further seeks a declaration that Cangrade's source code at issue does not constitute trade secrets.

128. Paylocity further seeks a declaration that Cangrade has not been damaged by any alleged disclosure of Cangrade's source code.

IX. FIFTH CAUSE OF ACTION

(Declaratory Judgment that Paylocity did Not Commit Negligence or Gross Negligence Against Cangrade)

129. In Count IV of the Massachusetts Action, Cangrade alleged that Paylocity committed negligence and/or gross negligence in carrying out its alleged duties concerning the handling of Cangrade's software.

130. *Inter alia*, Cangrade alleges that Paylocity "alone, and through its Representative Synopsys, failed to use reasonable care under all of the circumstances, including but not limited to, not protecting Cangrade's proprietary software, not assigning or monitoring or managing personnel with the appropriate experience and skills." Mass. Compl. ¶ 70.

131. Cangrade further alleged that "the person or persons responsible for the physical actual disclosure of Cangrade's proprietary software acted maliciously with intent to harm Cangrade, and were not reasonably vetted as employees to be entrusted with the responsibilities to protect Cangrade's proprietary software." *Id.* ¶ 74.

132. Cangrade also alleged, *inter alia*, that, "Paylocity's conduct was grossly negligent, willful, wanton, or reckless" and that "[a]s a result of Paylocity's gross negligence, Cangrade has been injured and suffered substantial damages." *Id.* ¶¶ 75, 76.

133. To the contrary, through Paylocity's retention of Synopsys in view of – Synopsys' representations; Synopsys' experience and expertise in the field; the contractual obligations, including but not limited to those of confidentiality, placed on Cangrade through [REDACTED] CONDA – Paylocity fulfilled all professional duties and met all duties of care that it owed to Cangrade.

1 134. Paylocity took all reasonable steps to ensure that Synopsys would exercise at least the
2 same duty of care with Cangrade's software as Paylocity would exercise in protecting its own
3 confidential information.

4 135. Paylocity was not responsible for vetting or supervising the personnel of Synopsys.

5 136. Cangrade has not presented evidence of actual harm to Cangrade resulting from
6 Synopsys' alleged disclosure of Cangrade's software. Thus, Cangrade has not been harmed by such
7 alleged disclosure.

8 137. In the event that Cangrade establishes actual harm resulting from the alleged disclosure
9 of its code, it would not be the result of any failure by Paylocity, and therefore would be the
10 responsibility of Synopsys, not Paylocity.

11 138. Therefore, Paylocity has not committed negligence or gross negligence resulting in any
12 harm to Cangrade.

13 139. Paylocity therefore seeks a declaratory judgment that Paylocity did not commit
14 negligence or gross negligence resulting in harm to Cangrade and that, if Cangrade has suffered any
15 harm as a result of Synopsys' alleged disclosure, Synopsys, and not Paylocity, would bear
16 responsibility for such harm.

17 **X. PRAYER FOR RELIEF**

18 WHEREFORE, Plaintiff seeks judgment against Defendants as follows:

19 A. a declaration that if and to the extent that 1) Cangrade's software constitutes
20 information confidential to Cangrade and 2) Synopsys did not maintain the confidentiality of that
21 information, Synopsys breached its confidentiality obligations to Paylocity [REDACTED]

22 B. a declaration that Synopsys owes duties of indemnification and defense of Paylocity
23 for the matters raised in the Disclosure Counts in the Massachusetts Action, wherever they are
24 litigated;

25 C. a declaration that Paylocity did not commit a violation of the DTSA as a result of an
26 alleged disclosure of Cangrade source code by Synopsys;
27
28

1 D. a declaration that if, and without admitting that, a violation of the DTSA occurred as a
2 result of the alleged disclosure of Cangrade's source code by Synopsys, it is Synopsys and not
3 Paylocity who would bear liability;

4 E. a declaration that Paylocity did not commit a violation of the MTSA as a result of an
5 alleged disclosure of Cangrade source code by Synopsys;

6 F. a declaration that if, and without admitting that, a violation of the MTSA occurred as a
7 result of the alleged disclosure of Cangrade's source code by Synopsys, it is Synopsys and not
8 Paylocity who would bear liability;

9 G. a declaration that Cangrade's source code at issue does not constitute trade secrets;

10 H. a declaration that Cangrade has not been damaged by any alleged disclosure of
11 Cangrade's source code;

12 I. a declaration that Paylocity did not commit negligence or gross negligence resulting in
13 harm to Cangrade and that, if Cangrade has suffered any harm as a result of Synopsys' alleged
14 disclosure, Synopsys, and not Paylocity, would bear responsibility for such harm;

15 J. for judgment that Synopsys has committed professional negligence;

16 K. an award of general and compensatory damages for professional negligence against
17 Synopsys according to proof, plus prejudgment interest;

18 L. an order finding that Paylocity is the prevailing party and that this case is an exceptional
19 case under 35 U.S.C. § 285, and awarding Paylocity its costs, expenses, and reasonable attorneys' fees
20 under 35 U.S.C. § 285, including interest, and all other applicable statutes, rules and common law,
21 including this Court's inherent authority, [REDACTED]; and

22 M. the award of such additional relief as the Court deems just and proper.
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XI. JURY DEMAND

Plaintiff demands a trial by jury as to all issues properly so tried.

DATED: December 8, 2023

REED SMITH LLP

By: /s/ Raymond A. Cardozo
Raymond A. Cardozo
Attorneys for Plaintiff, Paylocity Corporation

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